

BUILDING GROWTH MOMENTUM



“Our gains in tobacco, combined with the excellent progress we made in Next Generation Products, have put us in a strong position to deliver accelerated growth.”

ALISON COOPER
Chief Executive

This year we have built strong momentum in NGP, while generating robust returns in tobacco and I am delighted with our achievements.

In tobacco we have focused on our Growth Brands and priority markets, building on the success of our additional investments over the last two years.

We have also stepped up investment in NGP. We significantly expanded our presence in vapour with a number of new product and market launches and exited the year with growing sales of our pioneering blu brand.

Tobacco growth, combined with rapidly increasing sales of blu, improved our financial results with net revenue increasing two per cent and adjusted earnings per share up by five per cent.

These are pleasing results and the actions we have taken have set us up for accelerated growth in the years ahead, which makes it an incredibly exciting time to be leading the business.

In enhancing our focus on NGP, we are supporting smokers to switch to less harmful alternatives to cigarettes.

This is aligned to our purpose: to create something better for the world's smokers. This sits at the heart of our strategy and has been embraced by our people around the world.

We want smokers to choose alternative products with lower health risks. We encourage them to make that change by providing an outstanding vaping experience, endorsed by a trusted brand in blu and underpinned by leading-edge science.

But we also understand that many smokers will decide to continue to smoke and so we also focus on creating something better for them by providing an evolving portfolio of tobacco products that offer the highest quality smoking experience.

SUBSTANTIAL NGP GROWTH AMBITIONS

We view NGP as a significant additive growth opportunity for Imperial, due to the size of our global cigarette market share.

We have substantial NGP growth ambitions and this is reflected in our management incentives to deliver compound annual revenue growth of 35-150 per cent over the three years from 2017. This equates to a range of NGP revenues by 2020 of between £250 million and £1.5 billion.

The momentum we generated with blu in 2018 resulted in an annualised exit run-rate of around £300 million of net revenue and we expect to exit next year with our NGP business beginning to add to Group profit.

GROWING SALES OF BLU

Our portfolio is focused on blu, which celebrates its tenth anniversary in 2019, and our current growth model is built around the 4Bs adoption model: Believe, Buy, Buy Again and Belong.

Our aim is to transition adult smokers through all four elements of the model, converting them to blu in the process. Once smokers belong to the blu community we keep interacting with them in order to minimise their potential to revert to tobacco. The 4Bs is explained in more detail on page 5.

The strong growth in sales of *myblu*, with an increasing rate of pod repurchase, reflects the positive response from smokers, vapers and retailers in a growing number of markets.

We started the year in four markets and are now in nine, plus duty free and travel retail. Our *myblu* geographic footprint now covers the USA, UK, Italy, France, Germany, Russia, Japan, Austria and Canada, with further market launches to come.

Aligned with our blu adoption model, we have a number of exciting brand building and awareness activities planned to support growth in 2019, which will add around £100 million to our investments in the first half.

INNOVATION TRANSFORMING PORTFOLIO

We substantially enhanced our capabilities early in the year with the acquisition of the UK NGP innovation business Nerudia. The exciting work we are doing on innovation is transforming our portfolio, ensuring we are able to provide smokers with a wide range of high quality products.

This includes tobacco-free snus, recently launched in Sweden, and a high quality heated tobacco product called Pulze, which will be launched in 2019.

A regular drumbeat of innovations such as these is essential for accelerating smoker conversion rates, building brand loyalty and ensuring smokers stay in the NGP category.

NGP SUCCESS DRIVING REPORTING CHANGE

Our focus on NGP and the growth opportunity this provides across all our markets means that our current segmental descriptors of Growth and Returns are no longer applicable.

As a result, our segmental reporting for our tobacco and NGP businesses for the year ending 30 September 2019 will be changed to: Europe, Americas and Africa, Asia & Australasia.

These three regions will include all tobacco and NGP sales in their respective geographies, reflecting the new way we run the business.

At the same time, blu will be reclassified as a Growth Brand, reinforcing our global ambitions for the brand, and all NGP revenue and profit, currently reported in Growth Markets, will be included within the countries and segments where the sales occur. We will also separately disclose our NGP revenue.

OXFORD CANNABINOID TECHNOLOGIES

We continue to explore other avenues of growth and in June announced that we had taken an equity stake in Oxford Cannabinoid Technologies (OCT).

OCT is a biopharmaceutical company focused on researching, developing, and licensing cannabinoid-based compounds and therapies. OCT's activities are licensed for operation by the UK Home Office.

We believe cannabinoid products have significant growth potential. Our investment enables us to support OCT's important research while building a deeper understanding of the cannabis market.

GROWTH BRANDS UP AND GAINS IN PRIORITY MARKETS

While driving NGP growth we have also concentrated on our tobacco performance. This is fundamental to our success as tobacco will remain an integral part of our business for many years to come and generates the funds to invest in the business.

We focus on the performance of our Growth Brands and priority markets. Our Market Repeatable Model provides a structured framework for driving quality tobacco growth and is consistently applied across our footprint. The way the model works is explained on page 5.

Tobacco highlights included excellent results from our Growth Brands, which continued to outperform the market with volume, share and net revenue growth.

Growth and Specialist Brands now account for 67 per cent of the Group's tobacco net revenue, four per cent higher than last year.

In Growth Markets, we achieved share gains in all of our priority markets except for the USA, although our share trajectory continued to improve and our fourth quarter share was up year-on-year.

In Returns Markets, we grew share in the UK and delivered strong financial results in Australia and Germany.

OUR NGP PORTFOLIO

Our NGP portfolio is built around our pioneering vapour brand, blu. Vapour products do not contain tobacco and therefore represent a less harmful alternative to smoking.



HEATED TOBACCO

As the name implies, heated tobacco products heat a portion or rod of tobacco. This releases nicotine and other tobacco emissions at substantially lower levels than cigarettes.

We have developed an outstanding product in Pulze, which we look forward to launching in 2019.

TOBACCO-FREE SNUS

We have a strong position in snus, an oral tobacco product with a long history of use in Scandinavian countries.

This year we launched a tobacco-free version of our Skruf brand in Sweden and initial consumer feedback has been extremely positive.



VAPOUR

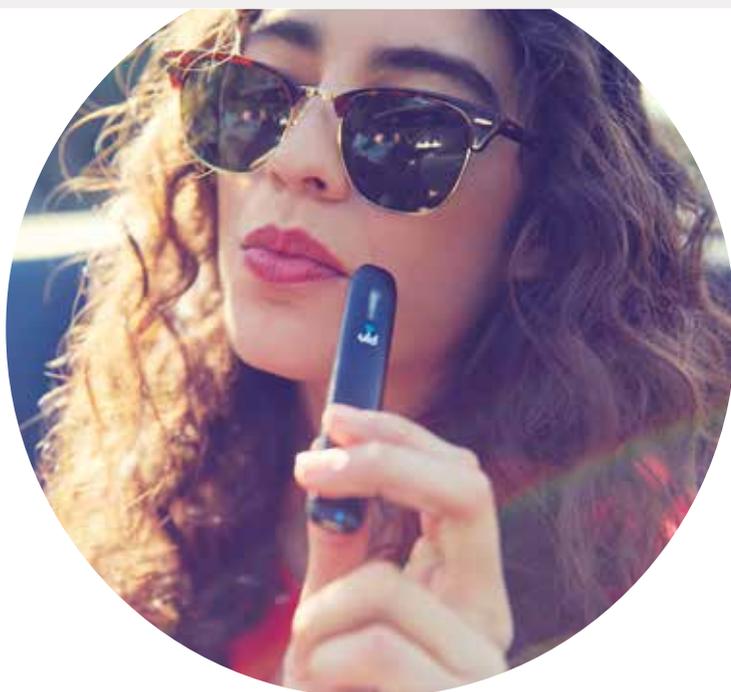
During the year we expanded the blu franchise with three exciting new launches: *myblu*, *myblu Intense* and *blu ACE*.

myblu is a pod format that delivers an exceptional vaping experience. Smokers and vapers appreciate the device's ergonomic design and rapid charging time.

myblu Intense is a nicotine salt product that more closely replicates the experience and satisfaction of smoking a cigarette. Intense is part of a broad range of different nicotine levels offered by blu, including a nicotine-free variant.

blu ACE is an open system product and the most powerful device in our portfolio. It is aimed at smokers and vapers who want to tailor their vaping experience yet retain the look and feel of a minimalist design with intuitive controls.

Flavours are a key aspect of the vaping experience and play an important role in converting smokers to vapour and keeping them in the category. Both *myblu* and *blu ACE* provide smokers with a wide range of flavours in multiple nicotine strengths, including nicotine-free offerings.



blu | SOMETHING BETTER.



DISCIPLINED COST AND CASH MANAGEMENT

Maximising cost and cash opportunities is a core element of our strategy, enabling us to improve efficiencies and release funds for investment.

We continued to make good progress with our two cost optimisation programmes, realising total savings of £110 million in the year through a range of initiatives that are further reducing complexity and enhancing the way we operate.

The first programme is now complete and is delivering annual savings of £300 million. The second programme will deliver a further £300 million of savings a year from our 2020 financial year.

We use our substantial cash flows to create returns for shareholders, pay down debt and reinvest in the business.

Our commitment to capital discipline underpins our focus on cash generation and the effective management of our working capital.

Cash conversion remained strong at 97 per cent and we grew the dividend per share by 10 per cent for the tenth consecutive year.

ACTIVE CAPITAL ALLOCATION

As we sharpened our focus on the brands, products and markets that are essential to our long-term success, we have identified assets that are less central to our growth ambitions.

We aim to exit or divest these assets to create further value for our shareholders and in the process, expect to generate proceeds of up to £2 billion within the next 12-18 months.

This programme is on track and progressing well. During the year, we realised £281 million from the sale of a portfolio of other tobacco products in the USA and a further 9.99 per cent of Logista.

ACCELERATING GROWTH TO CREATE VALUE

This has been a year of building growth momentum, one in which we made further gains in tobacco and significantly expanded our NGP presence, and our success has put us in a strong position for delivering accelerated growth.

We have an outstanding NGP portfolio and in creating something better for the world's smokers, we are encouraging them to transition to less harmful alternatives to cigarettes.

Given our relatively small global cigarette market share, NGP represents an additive financial opportunity for Imperial and will deliver a substantial amount of our future revenue and profit growth.

Tobacco will continue to play a material role in our business with further low single digit revenue growth, high margins and strong cash flows supporting investment in growth and shareholder returns.

Our talented people continue to support the strategy with tremendous energy and I would like to thank them all for their hard work and support.

We have the strategy, assets and capabilities for accelerating growth in NGP and generating further significant returns from our tobacco business.



ALISON COOPER
Chief Executive